



CITY OF HOUSTON

Finance Department

Interoffice

Correspondence

To: Budget and Fiscal Affairs Committee

From: Michelle Mitchell, Director
Finance Department

Date: February 3, 2009

CC:

**Subject: Combined Utility System
Series 2009 A & B**

The purpose of this memorandum is to summarize an upcoming transaction to support the City's Combined Utility System Capital Improvement Program. A specific Request for Council Action will be brought before City Council later this month. The bond pricing is projected to take place in late February and the closing in March.

The CUS Series 2009A&B is composed of several potential components including:

- Refunding of outstanding commercial paper,
- Reimbursement of General Purpose funds,
- Refunding of Series 2008D-2 Bonds,
- Funding a construction fund, and
- Refunding of Junior Lien Series 1997E Bonds.

Refunding of Commercial Paper Program Series A

In 1993, City Council began authorizing various commercial paper programs to provide appropriation capacity and cash for various needs of the City. The issuance of commercial paper has provided an expedient, cost-effective method of accessing cash and providing interim financing. The commercial paper notes are later refinanced to fixed rate bonds that match the useful life of the project or equipment being financed. This transaction represents the normal refunding of these commercial paper notes held by the Combined Utility System.

The Finance Working Group ("FWG") recommends refunding all currently outstanding commercial paper notes in an amount not to exceed \$310 million.

Reimbursement of General Purpose Funds

On October 1, 2008 City Council authorized Ordinance 2008-0876. This Ordinance authorized the temporary use of funds from the CUS General Purpose Fund to pay for CUS CIP projects, appropriating the funds, and authorizing the reimbursement of these capital expenditures to the CUS General Purpose Fund out of future commercial paper or bond proceeds.

The FWG recommends reimbursing all funds borrowed from the CUS General Purpose Fund that were used to pay for CUS CIP projects in an amount not to exceed \$30 million.

Funding a Construction Fund

The CUS annual CIP is approximately \$275 million, all of which is typically funded using CUS Commercial Paper Notes, Series A, which are periodically converted to bonds. Due to current and ongoing risks that the credit/financial crisis poses to the CUS Commercial Paper program Series A, the FWG recommends issuing an amount not to exceed \$100 million for the creation of a Construction Fund. A construction fund will pay four to six months of CUS water and sewer CIP expenditures. In the event of further credit market disruptions, this construction fund will provide the flexibility to delay the next commercial paper refunding, if needed, and access the market when it is the most advantageous, without interrupting the CUS CIP.

Refunding of Series 2008D-2

The CUS debt portfolio currently includes the Series 2008D-2 Variable Rate Demand Obligations (VRDOs). This bond series converted from taxable to tax-exempt on December 2, 2008. The FWG recommends refunding the Series 2008D-2 VRDOs to fixed-rate debt to reduce variable rate exposure of the Combined Utility System in an amount not to exceed \$25 million.

CUS Series 2009B

The City has identified the Junior Lien Series 1997E Bonds for current refunding in order to realize present value savings due to the current potential for refunding at a lower interest rate. The par amount of the bonds being refunded is \$170,000,000. The projected savings are expected to be \$6.7 million or 3.9%. This transaction will be conditional on market conditions remaining favorable for realizing savings of at least 3%.

SUMMARY

	Total Amount not to exceed
Refunding of Series A CP	\$310 million
Reimbursement of General Purpose Funds	\$ 30 million
Funding of Construction Fund	\$100 million
Refunding of Series 2008D-2	\$ 25 million
	\$465 million
Cash Funding of Associated Debt Reserve Fund	\$ 25 million
CUS Revenue Refunding Bonds Series 2009A	\$490 million
CUS Revenue Refunding Bonds Series 2009B	\$170 million
Total CUS Revenue Refunding Bonds Series 2009 A & B	\$660 million

The Finance Working Group recommends the Series 2009A&B Bonds be issued through a negotiated financing with Bank of America serving as book running manager along with Piper Jaffray, Loop Capital Markets, and Morgan Stanley as co-senior managers. RBC Capital Markets, Siebert Brandford Shank, Southwest Securities, Ramirez & Co., and Fidelity Capital Markets Services are recommended as co-managers. Andrews Kurth LLP and Burney & Foreman are recommended as co-bond counsel. Fulbright & Jaworski and Edgardo E. Colon P.C are recommended as co-disclosure counsel. The recommended financial advisors are Coastal Securities, Morgan Keegan, and Estrada Hinojosa.



Due to the potential size of this deal and the state of the credit markets, the FWG recommends the addition of a "selling group" to the existing underwriting team. This group of bankers will participate only in the sale of bonds and will have no additional responsibilities or rights. The specific organizations recommended to be included will be detailed in the RCA that will be presented to Council at a later date.

Recommendation

The Finance Working Group recommends that the City proceed with this transaction.

TO: Mayor via City Secretary

REQUEST FOR COUNCIL ACTION

SUBJECT: Appropriate \$100 million out of the Combined Utility System (CUS) General Purpose Fund and transfer to the Water & Sewer System Consolidated Construction Fund for payment of ongoing CUS CIP project expenditures; and authorize reimbursement of these capital expenditures to the CUS General Purpose Fund out of bond or commercial paper proceeds.		Page 1 of 1	Agenda Item # 34
FROM (Department or other point of origin): Department of Public Works and Engineering		Origination Date 9/26/08	Agenda Date OCT 01 2008
DIRECTOR'S SIGNATURE:  Michael Marcotte, P.E., DEE Director, Department of Public Works and Engineering		Council District affected: All	
For additional information contact: Susan Bandy Deputy Director - PWE Phone: 713-837-0282		Date and identification of prior authorizing Council action:	
RECOMMENDATION: (Summary) Approve an Ordinance authorizing the temporary use of funds from the CUS General Purpose Fund to pay for CUS CIP projects, appropriating the funds, and authorizing the reimbursement of these capital expenditures to the CUS General Purpose Fund out of future commercial paper or bond proceeds.			
AMOUNT AND SOURCE OF FUNDING: \$100 Million – Combined Utility System General Purpose Fund No. 8305			
<p>The CUS water & sewer CIP expenditures are funded via CUS Commercial Paper Notes, Series A. As a direct consequence of the worldwide credit/financial market turmoil, on September 22, 2008 the commercial paper note interest rate quote was 9.5% per annum. This 9.5% interest rate quotation compares to the most recent rates of around 2% per annum. The CUS annual CIP is \$275 million, all of which is funded using commercial paper that is periodically converted to bonds. On \$100 million of this amount, the CUS would be paying approximately \$625,000 per month more with a 9.5% interest rate than we are paying currently. Netting out the amount that would have been gained from interest by having \$100 million in the CUS General Purpose Fund (currently earning ~3.8% per annum), the CUS still saves over \$300,000 per month over what we would have paid before the commercial paper interest rates dramatically increased.</p> <p>The proposed short-term solution is for the CUS to use cash reserves in the CUS General Purpose Fund and temporarily transfer funds to the CUS Construction Fund to pay construction expenditures until the per annum interest rate for the CUS Commercial Paper Notes falls to an acceptable level. This action provides that CUS General Purpose Fund monies transferred to the Water & Sewer System Consolidated Construction Fund (amount not to exceed \$100 million) be reimbursable from Commercial paper notes or bond proceeds at a later time. The CUS General Purpose Fund must be reimbursed prior to fiscal year 2009 year end.</p> <p>All member of the City's Financial Working Group support this solution.</p> <p>The City's CUS Financial Working Group Includes: The City Controllers Office, the Finance Department, PWE Department the CUS Financial Advisors, and the CUS Bond Counsel.</p> <p>MSM:SB:KB c: Marty Stein</p>			
REQUIRED AUTHORIZATION		CUIC#SB19	
Department of Finance Budget: Michelle Mitchell 	Other Authorization:	Other Authorization:	